

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE U.S. DEPARTMENT OF AGRICULTURE

USTR PRESS RELEASES ARE AVAILABLE ON THE USTR WEBSITE AT WWW.USTR.GOV.

**FOR IMMEDIATE RELEASE:
MAY 09, 2003**

CONTACT:

2003-29

RICHARD MILLS/USTR

(202) 395-3230

ALISA HARRISON/ USDA

(202) 720-4623

U.S. & Canada Reach Agreement Ending Illegally Subsidized Canadian Dairy Exports to U.S.

WASHINGTON - The Office of the U.S. Trade Representative and the U.S. Department of Agriculture today announced an important settlement with Canada resulting in major revisions to Canada's subsidy programs for its dairy exports. The United States recently won a World Trade Organization (WTO) case that ruled that Canada was continuing to provide illegal subsidies to its dairy industry. As a result of today's settlement, Canada has agreed to eliminate these subsidies. Consequently, Canada will no longer export subsidized dairy products to the United States and will significantly limit subsidized dairy exports destined to third countries.

"This is great news for American dairy farmers and processors. The playing field has been leveled. The Canadians have agreed to comply with the WTO decision and will stop exporting subsidized dairy products to the United States," stated U.S. Trade Representative Robert B. Zoellick. "I welcome Canada's quick action to comply with the WTO's most recent ruling, and fully expect Canada to abide by its WTO commitments on dairy exports."

"Canada's dairy subsidies have hurt U.S. producers and we are pleased that the WTO process has resulted in a positive solution," said Veneman. "This agreement will allow our producers to more effectively compete in the marketplace."

Over a number of years, the United States has argued before the WTO that Canada's dairy programs provided export subsidies to its dairy processors and farmers above the level that Canada committed to in the WTO. In December 2002, the WTO ruled in favor of the United States confirming that Canada was continuing to provide illegal export subsidies with the sale of discounted milk to Canadian processors under its Commercial Export Milk (CEM) program. Canada's settlement of the case is also with New Zealand, which joined the United States in challenging Canada's dairy regime in the WTO.

Key elements of the settlement between the United States and Canada are:

- 1) By April 30, 2003, all Canadian provinces eliminated the CEM program, which the WTO ruled as providing export subsidies. The federal government of Canada also is making consequential amendments to its regulations related to CEM.
- 2) Canada prohibited any new contracts under the CEM program as of December 31, 2002, thereby limiting the amount of subsidized dairy exports for the remainder of the current marketing year, ending July 31, 2003.

3) As of May 1, 2003, all deliveries of CEM milk ceased, and there will be no exports to the United States of any subsidized milk or cream.

4) Canada ceased issuing permits for the export of dairy products under its Special Milk Class 5(d) for the remainder of the current marketing year.

5) For the current marketing year, Canada will ensure that subsidized exports of butter and skim milk powder stay within the level established in the WTO.

6) Canada will exceed its WTO commitment level for subsidies provided to exports of cheese and other milk products by a limited amount in the current marketing year. Due to the elimination of the CEM program, however, as of August 1, 2003, no subsidized dairy exports will enter the United States, and Canada also will limit its subsidized dairy exports to other foreign markets to the level established in the WTO.

Background:

As part of its Uruguay Round WTO obligations, Canada agreed to specific limits on export subsidies for dairy products. In 1995, Canada replaced its subsidy payments on all dairy exports, which were financed by a levy on dairy producers, with a new system. However, this system let Canadian processors buy lower-priced milk and use it to make cheese and other dairy products for export. Canada claimed the new system was no longer an export subsidy.

In 1997, the National Milk Producers Federation, the U.S. Dairy Export Council and the International Dairy Foods Association asked the U.S. Trade Representative to challenge Canada's dairy trade practices as inconsistent with its WTO obligations on export subsidies. After bilateral consultations, the U.S. referred its complaint to a WTO dispute settlement panel in February 1998. New Zealand joined the U.S. challenge to Canada's export subsidies.

In 1999, a WTO panel and the Appellate Body found that Canada's special milk class system, which provides discounted milk for export, was an export subsidy. The WTO panel and the Appellate Body also found that Canada was violating its WTO Agreement on Agriculture by shipping more subsidized exports than it had agreed to.

In response to the panel and Appellate Body reports, Canada introduced its "commercial export milk" scheme. The United States and New Zealand charged that Canada's CEM program did not bring Canada's export subsidy system into conformity with its WTO obligations. In January 2001, the United States and New Zealand asked that a new WTO dispute settlement panel review the new Canadian system. That panel agreed in July 2001 that Canada's CEM program provided an export subsidy in the form of discounted milk to Canadian dairy processors.

Canada appealed the panel's findings. In December 2001, the Appellate Body said it could not reach a decision because it did not have enough information. The United States and New Zealand then requested another WTO panel to review the additional information requested by the Appellate Body. In July 2002, the panel concluded that Canada was continuing to provide illegal export subsidies to Canadian dairy processors with the sale of discounted milk under the CEM program. In December 2002, the Appellate Body affirmed that panel's findings. In January 2003, the WTO Dispute Settlement Body adopted the panel and Appellate Body reports.